MAR/REG OIL COMPANY

Docket No. 2010-024 - Cause No. 188-04

EXHIBITS

Description	Exhibit No.
Regional Map	1
Regional Map	2
Land Map	3
Geological Setting	4
Reservoir Properties	5
Volumetric Reserves	6
Future Revenues	7
Federal 1-19 Decline Curve	8
Federal 3-19 Decline Curve	9
Upper Ismay Carbonate Structure	10
Upper Ismay Carbonate Isopach	11
Desert Creek Structure	12
Desert Creek Isopach	13
North South Cross Section	14
East West Cross Section	15
Operating Agreement	16
Request for Agency Action	17

PARADOX BASIN

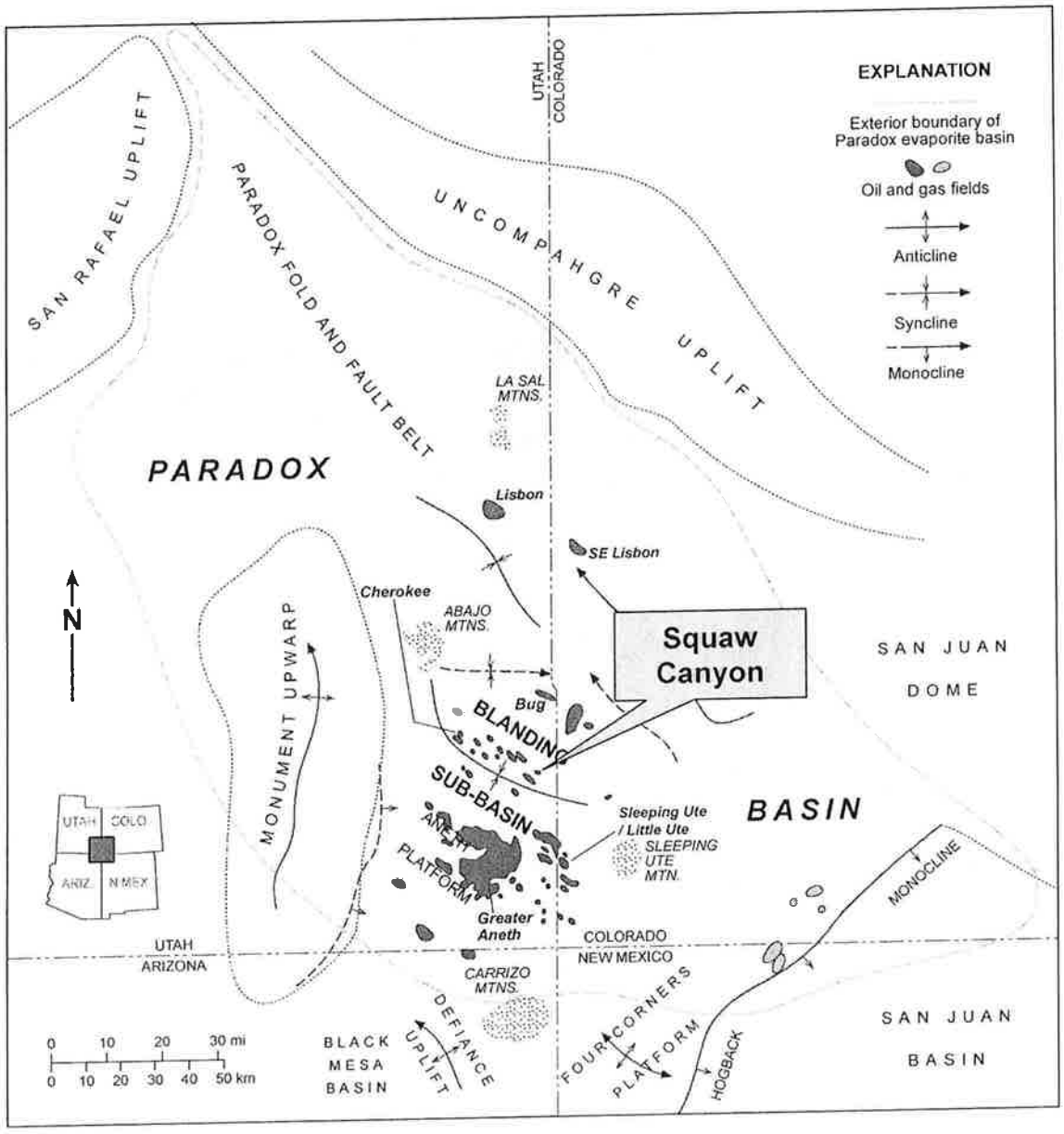


EXHIBIT 1

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 1

REGIONAL MAP OF PARADOX BASIN

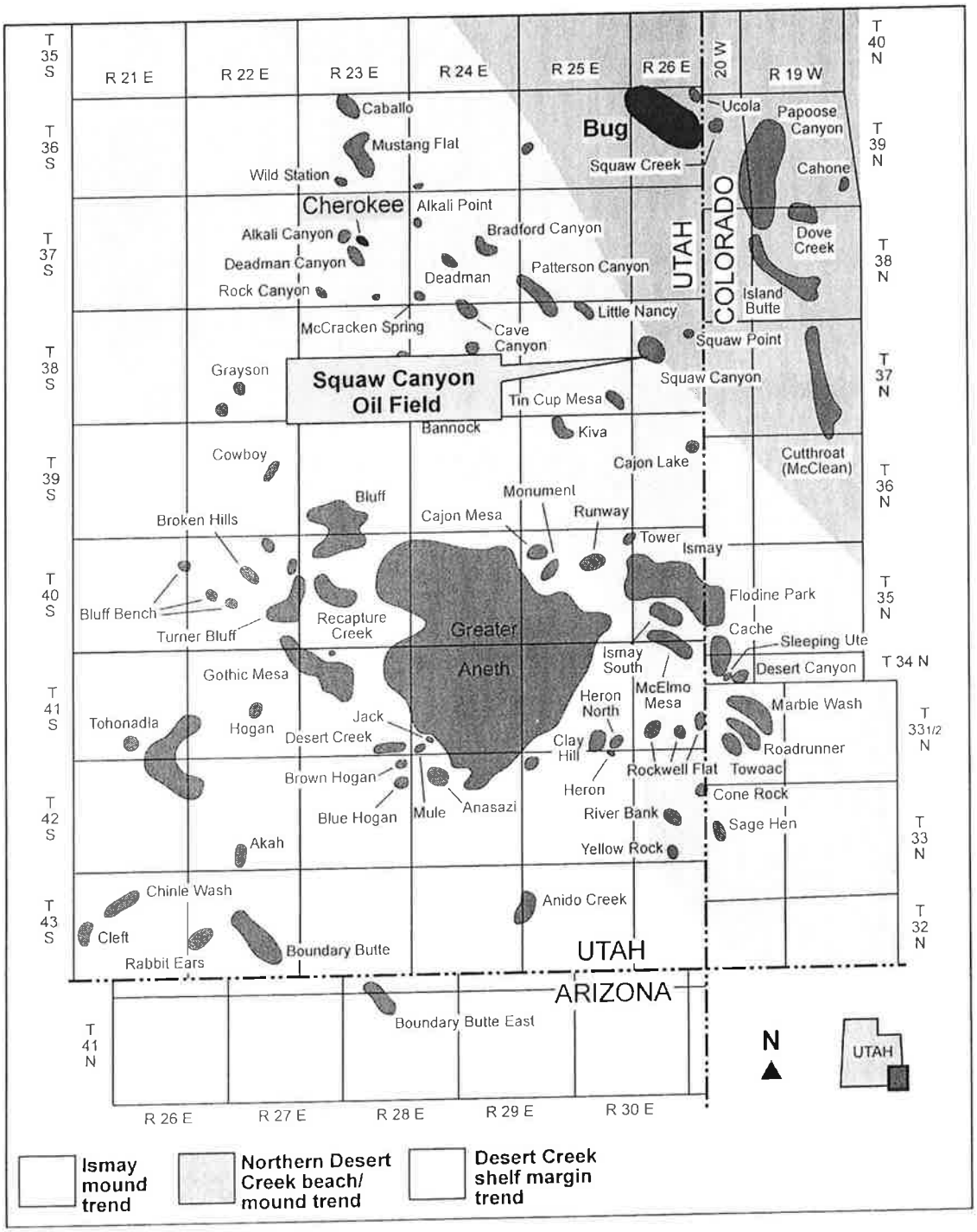
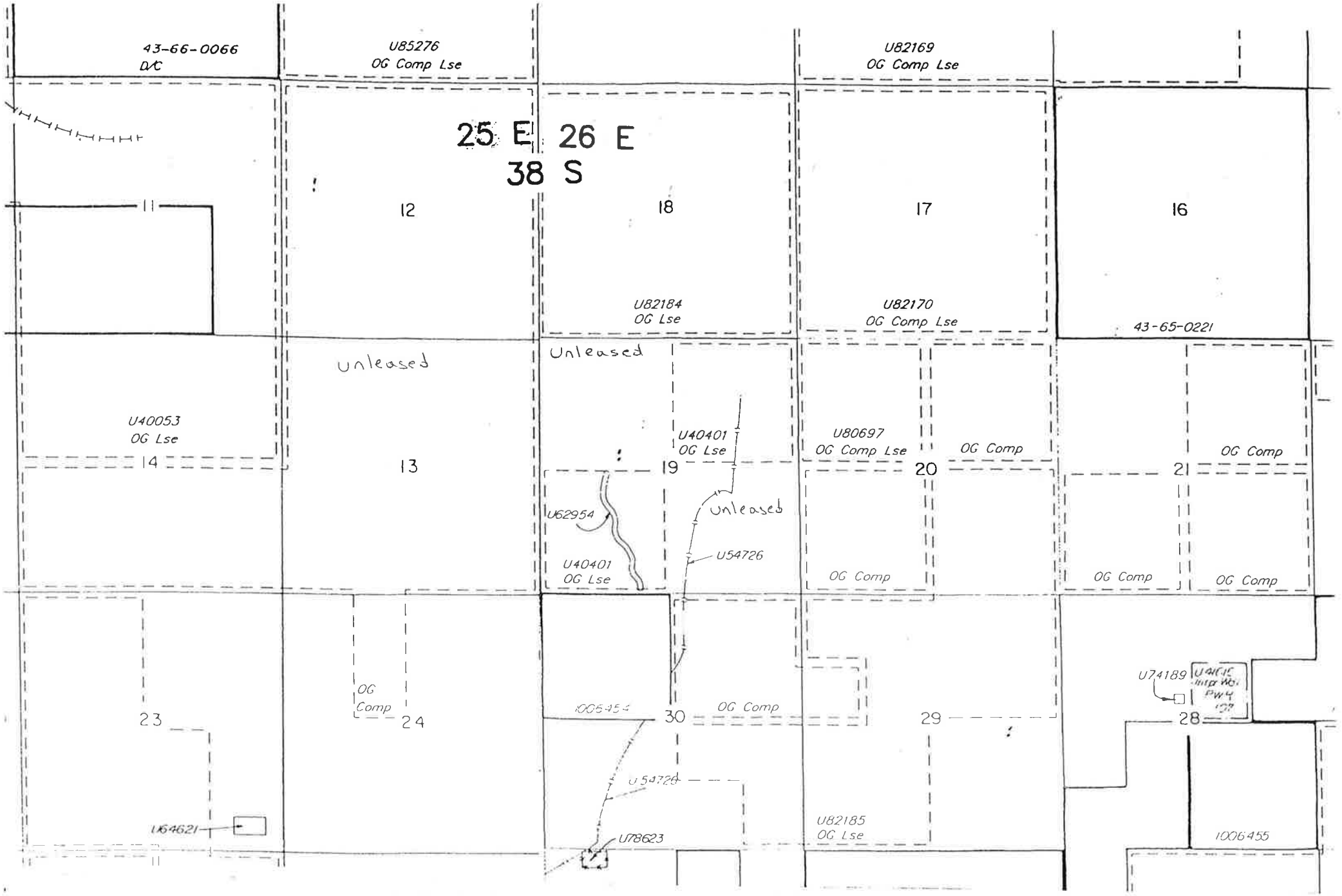


EXHIBIT 2

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 2



SQUAW CANYON & VICINITY BLM LEASE MAP

(Source-http://www.ut.blm.gov/LandRecords/mtps_his_ut.cfm)

Exhibit 3

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 3

SQUAW CANYON OIL FIELD

Geological Setting

The Squaw Canyon oil field is located in the Paradox Basin approximately 25 miles southeast of Blanding, Utah. The field produces from the Ismay and Desert Creek zones of the Paradox formation of the Pennsylvanian period in the Blanding sub-basin.

The source rock of the oil is several black, organic rich shales within the Paradox Formation. The relatively undeformed Blanding sub-basin developed on a shallow-marine shelf which locally contained algal-mund and other carbonate buildups in a subtropical climate.

The Ismay zone is dominantly limestone, comprising equant buildups of phylloid-algal material capped by ahhydrite. The Desert Creek zone is dominantly dolomite, comprising regional, nearshore, shoreline trends with highly aligned, linear facies tracts.

Squaw Canyon Field was discovered by the drilling of the Federal 1-19 well located in the SENE Section 19, , T38S R26E SLM. Additional wells were drilled to delineate the field, with a single well the Federal 3-19 being completed and placed on production, the remaining wells determined the extent of the producing zones.

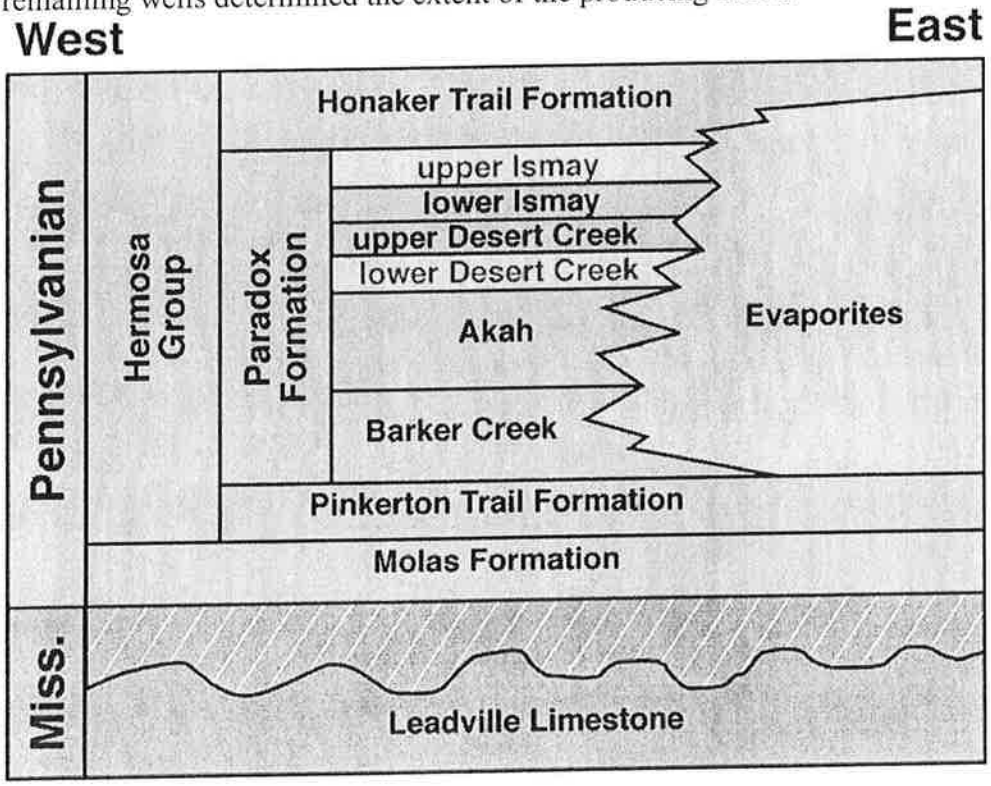


Exhibit 4

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 4

Squaw Canyon Oil Field

Reservoir Properties

Upper Ismay Formation

Contains Three permeable zones
5323 – 34 76% Dolomite 24% Limestone
5347 – 53 63% Limestone 37% Dolomite
5375 – 81 74% Dolomite 26% Limestone

Average Porosity	13%
Water Saturation	45%
Thickness	21 feet
Permeability	1.1 md
Upper Ismay Perfs	5322 - 5339 feet IP 51 BO/D 237 MCF/D 7 BWPD

Desert Creek Formation

Single Permeable Zone

Porosity	16.5%
Water Saturation	49% (Secondary porosity is also visible from cores)
Lithology	Dolomite
Thickness	12 feet
Permeability	1 md (fractures)
Desert Creek Perfs	5553 – 5555 feet IP 504 BO/D 433 MCF/D 0.2 BWPD

Fluid Properties

Desert Creek

Gravity	44.2	API
Viscosity	0.334	cp

Upper Ismay

Gravity	43.2	API
Viscosity	0.35	cp

The reservoir rocks are fractured with the fracture orientation being NE SW.

EXHIBIT 5

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 5

Squaw Canyon Oil Field Volumetric Calculations

Upper Ismay

H	10 feet
Porosity	13 percent
Water Saturation	45 percent

160 acre drainage

Oil in Place

Ismay	1.7 million bbls
Desert Creek	1.42 million bbls
Total	3.228 million bbls

Cumulative Production

0.349 million bbls

Total recovery to date 11.2 percent

Ultimate recover assuming 25% recovery factor

0.807 million bbls

Remaining Reserves 0.430 million bbls

A single horizontal well should be able to recover the remaining reserves beneath the NE/4 of Section 19.

The two wells completed on the subject lease can continue producing from the existing zones and would not have an effect upon the drainage from the horizontal well, as the remaining reserves of approximately 50,000 bbls. Thus, the horizontal well should still be able to recover the remaining reserves of approximately 380,000 bbls of oil.

Economics:

Well cost	$ 2.8 million
Cumulative Revenues	$ 17 million
Discounted Rev @10%	$ 7.6 million
ROI	6 to 1
ROI @ 10%	2.7 to 1

EXHIBIT 6

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 6

Gas Well Operating Exp. $300/month
Oil Well Operating Exp. $2000

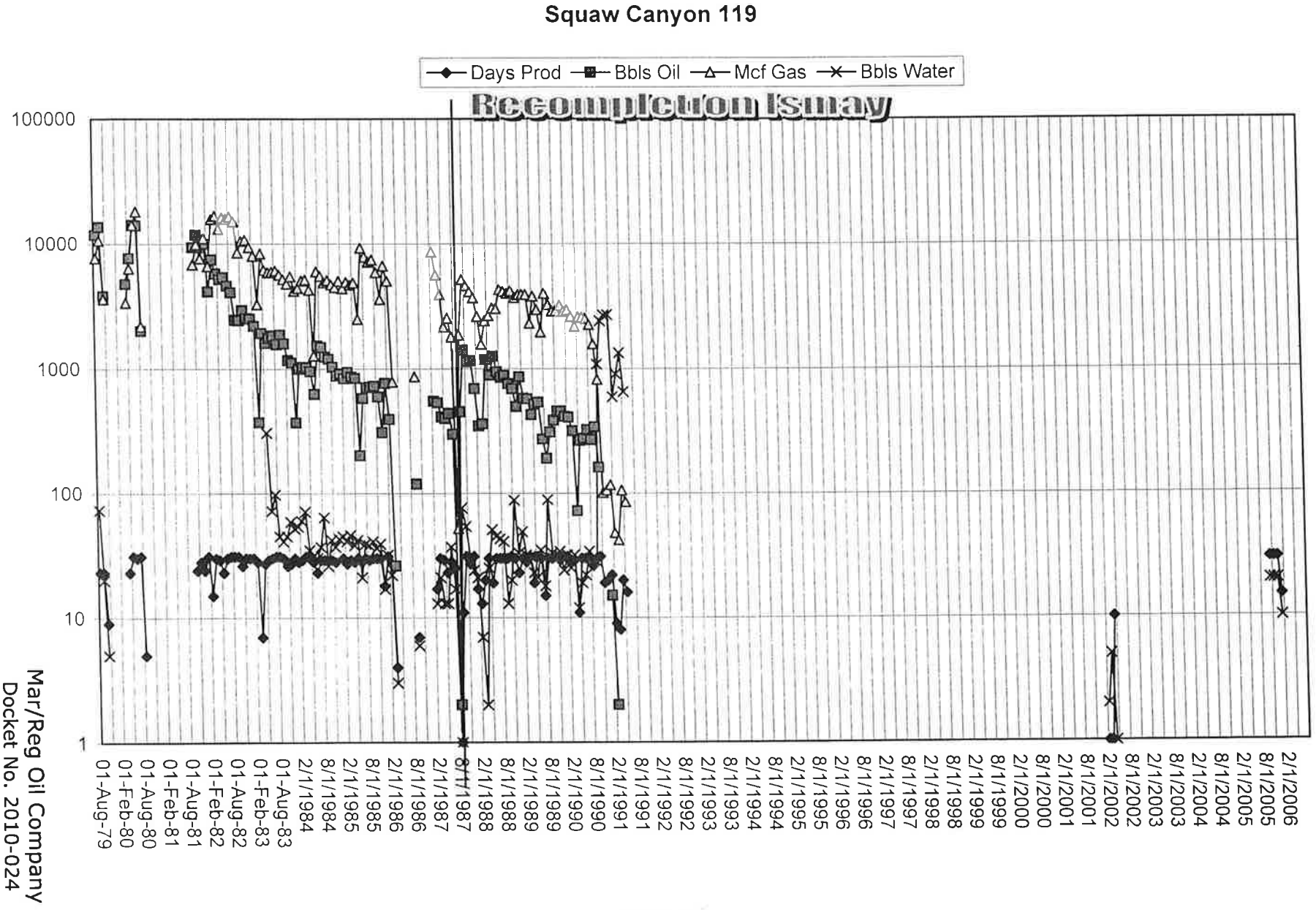
Gas Price $3/Mcf
Oil Price $61

Year	Gas Rate MCF	MCF Net	Gas Net Rev.	Gas NOE	Oil Rate	Oil bbls Net Prod	Oil Net. Rev.	NOR	Prod. Tax	Net Rev After Taxes	PV 10%
2011	10000	8250	$ 24,750	0	30000	24750	$ 1,435,500	$ 24,000	$ 73,013	$ 1,363,238	$ 1,298,321
2012	9300	7200	$ 21,600	0	27900	23018	$ 1,335,015	$ 24,000	$ 67,831	$ 1,264,784	$ 1,045,276
2013	8649	6696	$ 20,088	0	25947	21406	$ 1,241,564	$ 24,000	$ 63,083	$ 1,174,570	$ 882,471
2014	8044	6227	$ 18,682	0	24131	19908	$ 1,154,654	$ 24,000	$ 58,667	$ 1,090,670	$ 744,942
2015	7481	5791	$ 17,374	0	22442	18514	$ 1,073,829	$ 24,000	$ 54,560	$ 1,012,643	$ 628,771
2016	6957	5386	$ 16,158	0	20871	17218	$ 998,661	$ 24,000	$ 50,741	$ 940,078	$ 530,649
2017	6470	5009	$ 15,027	0	19410	16013	$ 928,754	$ 24,000	$ 47,189	$ 872,592	$ 447,778
2018	6017	4658	$ 13,975	0	18051	14892	$ 863,742	$ 24,000	$ 43,886	$ 809,831	$ 377,792
2019	5596	4332	$ 12,997	0	16787	13850	$ 803,280	$ 24,000	$ 40,814	$ 751,463	$ 318,694
2020	5204	4029	$ 12,087	0	15612	12880	$ 747,050	$ 24,000	$ 37,957	$ 697,180	$ 268,793
2021	4840	3747	$ 11,241	0	14519	11979	$ 694,757	$ 24,000	$ 35,300	$ 646,698	$ 226,664
2022	4501	3485	$ 10,454	0	13503	11140	$ 646,124	$ 24,000	$ 32,829	$ 599,749	$ 191,098
2023	4186	3241	$ 9,722	0	12558	10360	$ 600,895	$ 24,000	$ 30,531	$ 556,086	$ 161,078
2024	3893	3014	$ 9,042	0	11679	9635	$ 558,832	$ 24,000	$ 28,394	$ 515,480	$ 135,742
2025	3620	2803	$ 8,409	0	10861	8961	$ 519,714	$ 24,000	$ 26,406	$ 477,717	$ 114,362
2026	3367	2607	$ 7,820	0	10101	8333	$ 483,334	$ 24,000	$ 24,558	$ 442,597	$ 96,322
2027	3131	2424	$ 7,273	0	9394	7750	$ 449,501	$ 24,000	$ 22,839	$ 409,935	$ 81,103
2028	2912	2255	$ 6,764	0	8736	7208	$ 418,036	$ 24,000	$ 21,240	$ 379,559	$ 68,267
2029	2708	2097	$ 6,290	0	8125	6703	$ 388,773	$ 24,000	$ 19,753	$ 351,310	$ 57,442
2030	2519	1950	$ 5,850	0	7556	6234	$ 361,559	$ 24,000	$ 18,370	$ 325,039	$ 48,315
2031	2342	1813	$ 5,440	0	7027	5797	$ 336,250	$ 24,000	$ 17,085	$ 300,606	$ 40,621
2032	2178	1687	$ 5,060	0	6535	5392	$ 312,712	$ 24,000	$ 15,889	$ 277,883	$ 34,137
2033	2026	1568	$ 4,705	0	6078	5014	$ 290,823	$ 24,000	$ 14,776	$ 256,752	$ 28,674
2034	1884	1459	$ 4,376	0	5652	4663	$ 270,465	$ 24,000	$ 13,742	$ 237,099	$ 24,072
2035	1752	1357	$ 4,070	0	5257	4337	$ 251,532	$ 24,000	$ 12,780	$ 218,822	$ 20,196
2036	1630	1262	$ 3,785	0	4889	4033	$ 233,925	$ 24,000	$ 11,885	$ 201,824	$ 16,934
2037	1516	1173	$ 3,520	0	4547	3751	$ 217,550	$ 24,000	$ 11,054	$ 186,017	$ 14,189
2038	1409	1091	$ 3,274	0	4228	3488	$ 202,322	$ 24,000	$ 10,280	$ 171,316	$ 11,880
2039	1311	1015	$ 3,044	0	3932	3244	$ 188,159	$ 24,000	$ 9,560	$ 157,644	$ 9,938
TOTAL	125443	103490	$ 310,471	0	376328	310471	$ 18,007,312	$ 696,000	$ 15,524	$17,606,259	$ 7,924,522

PV10 $ 7,924,522

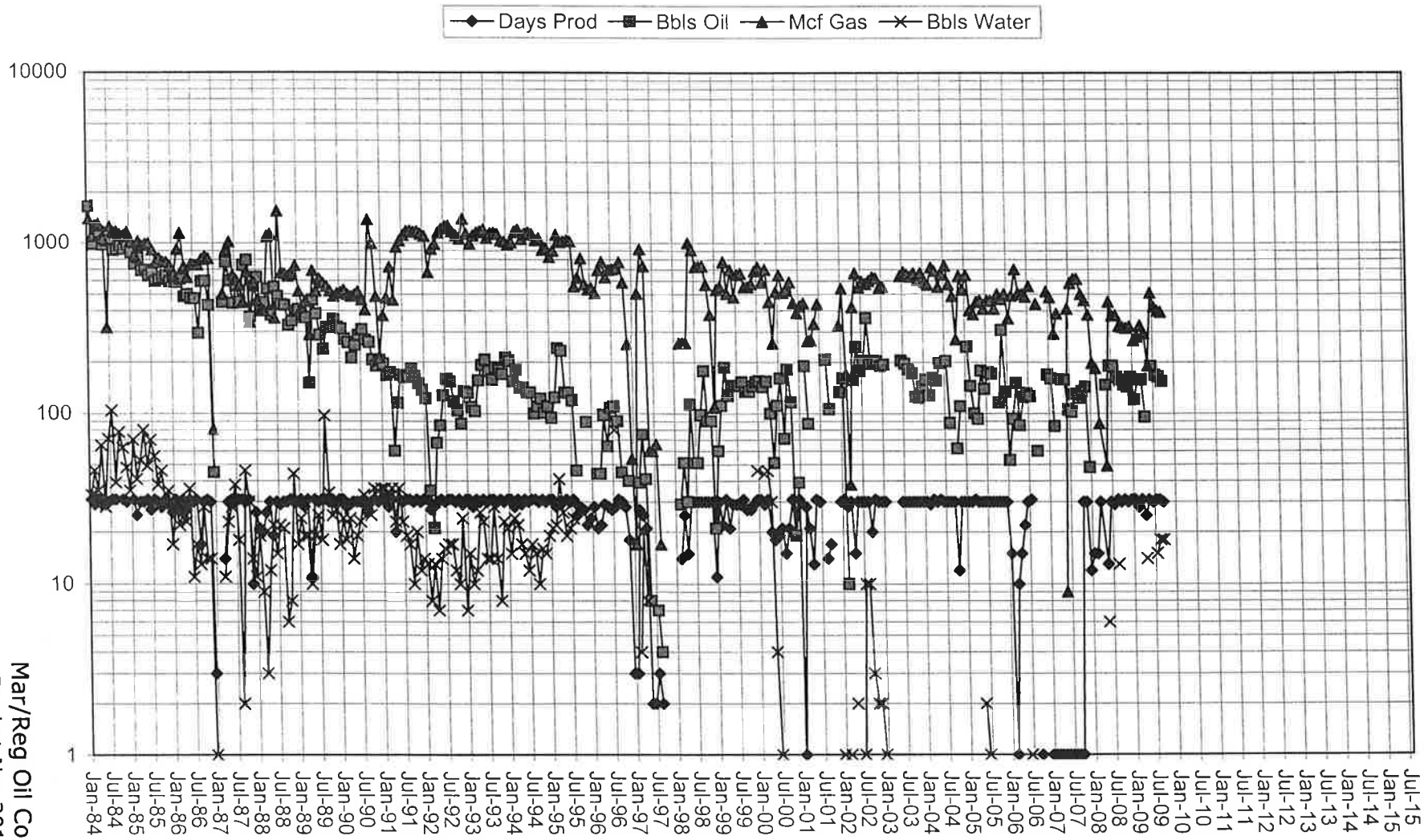
EXHIBIT 7

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 7

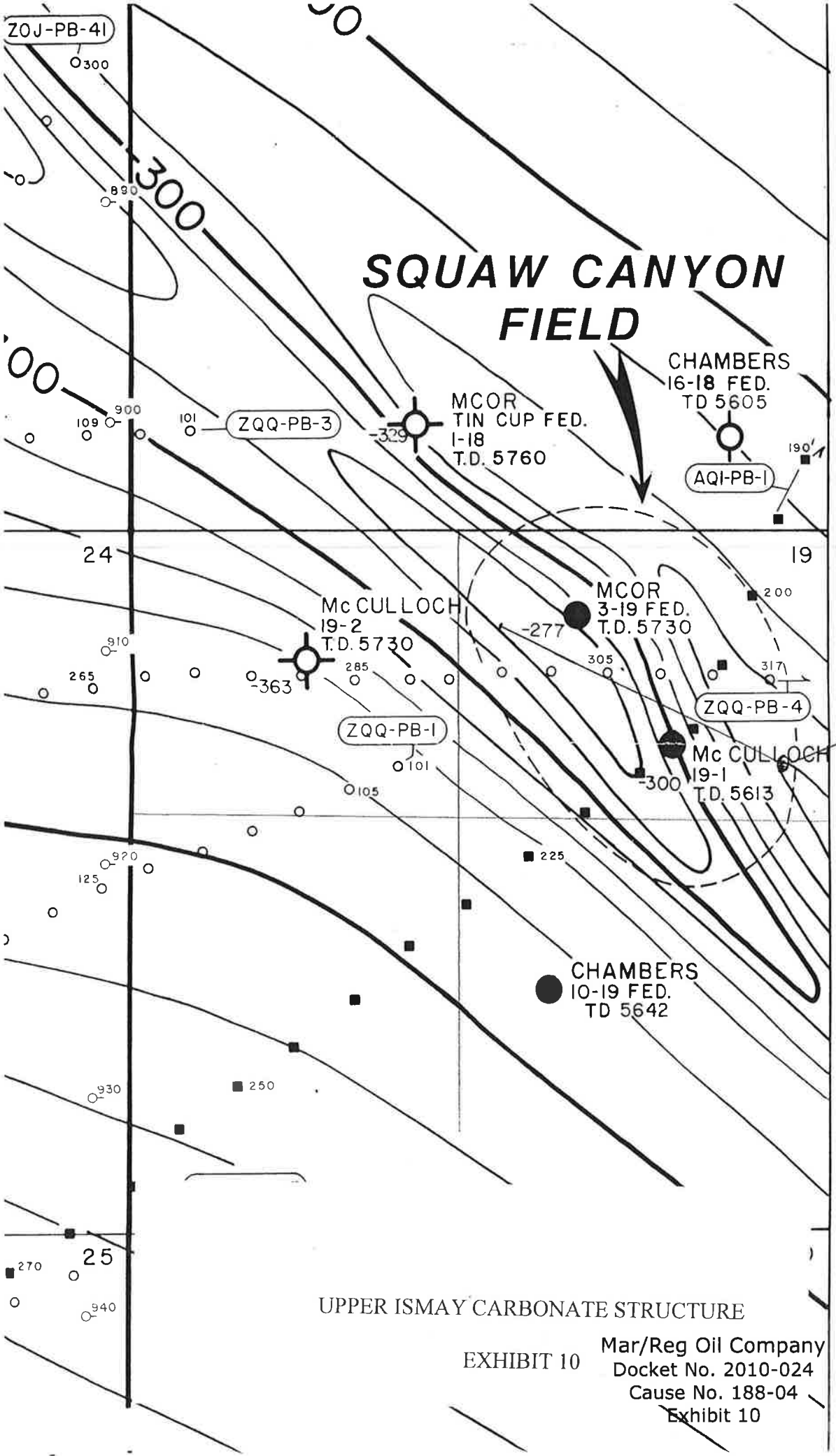


Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 8

SQUAW CANYON FED 3-19
API# 43-037-30622



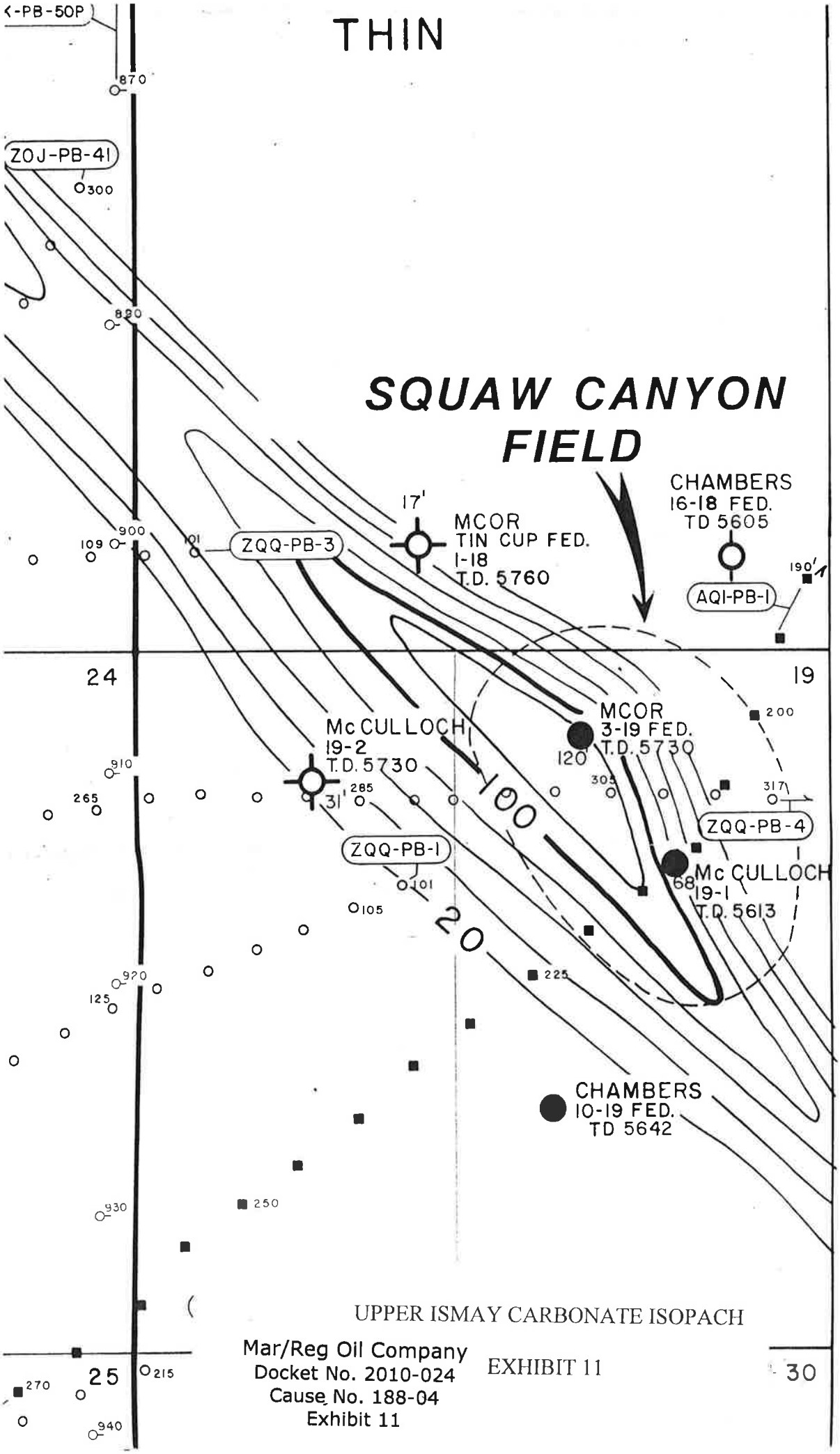
Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 9



UPPER ISMAY CARBONATE STRUCTURE

EXHIBIT 10

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 10

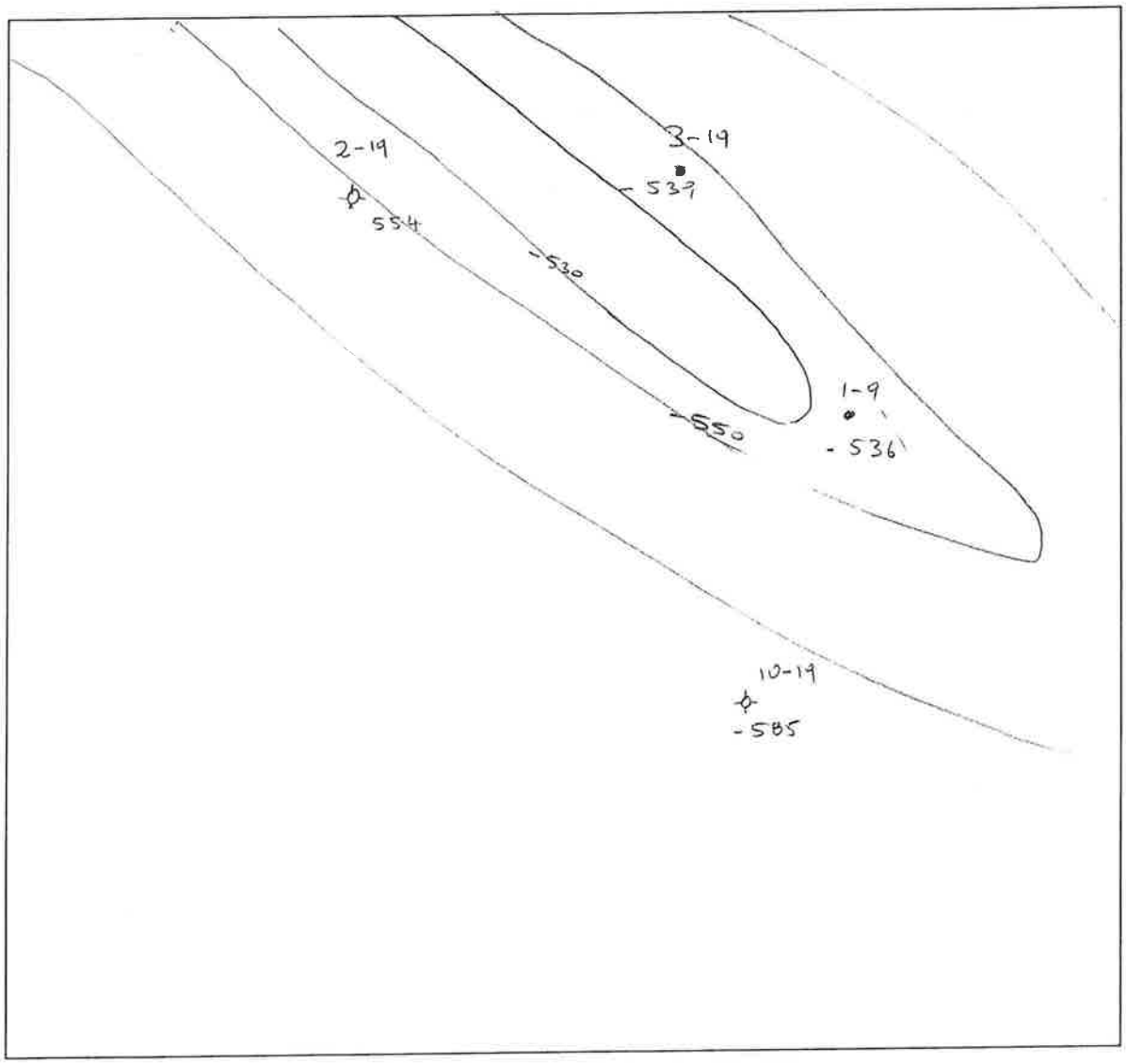


UPPER ISMAY CARBONATE ISOPACH

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 11

EXHIBIT 11

SQUAW CANYON OIL FIELD
DESERT CREEK STRUCTURE MAP

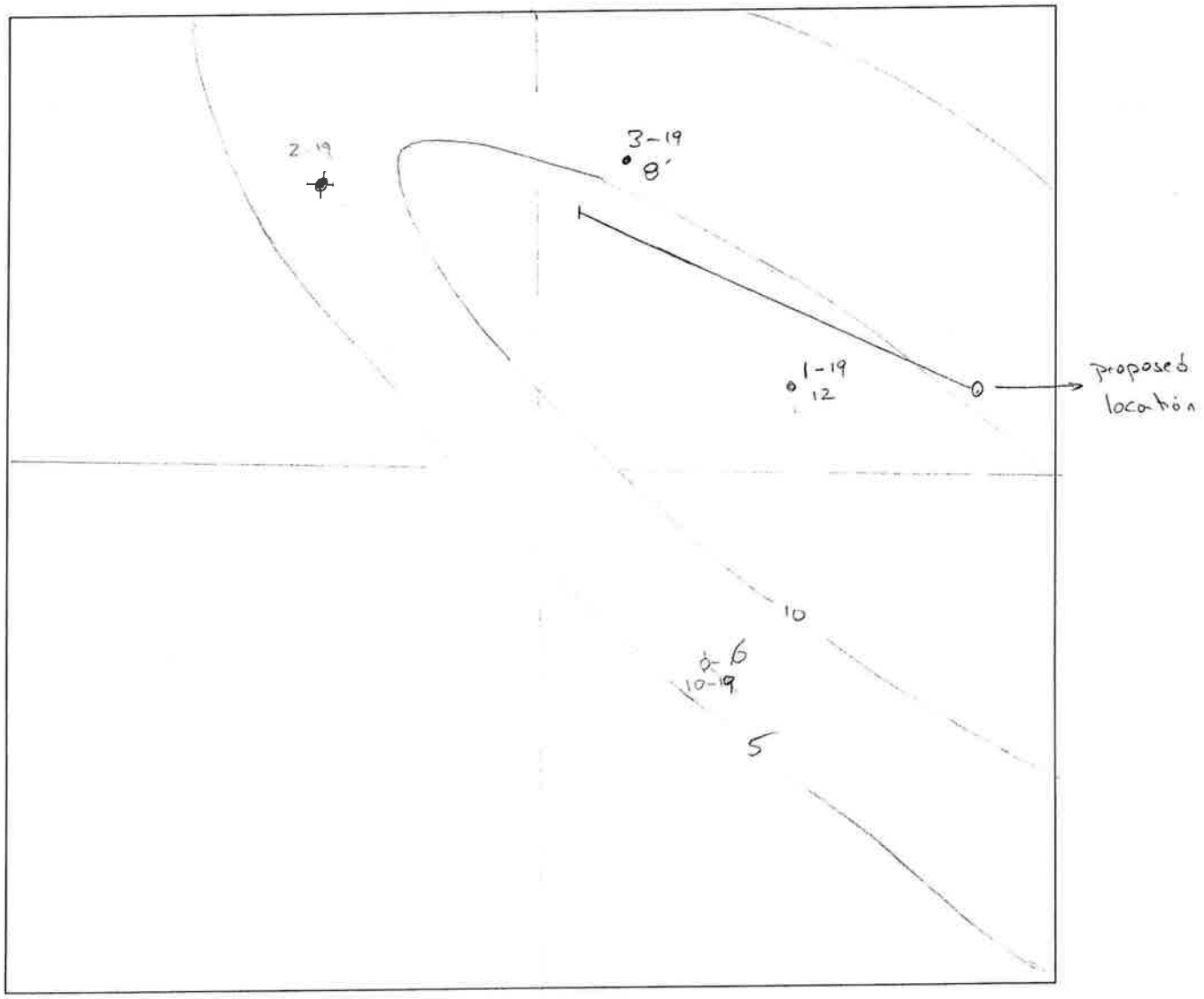


DESERT CREEK STRUCTURE

EXHIBIT 12

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 12

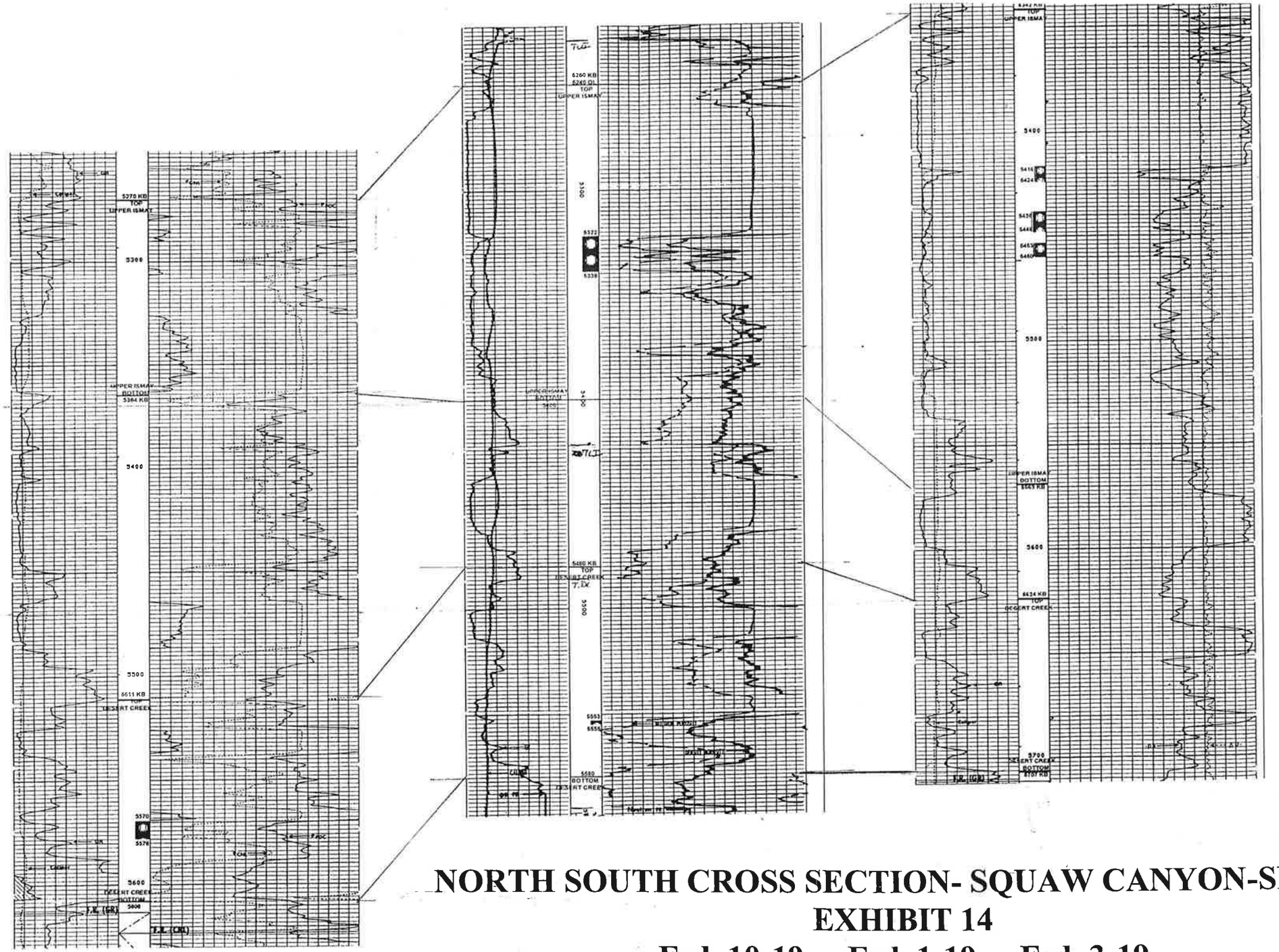
SQUAW CANYON OIL FIELD
DESERT CREEK ISOPACH



DESERT CREEK ISOPACH

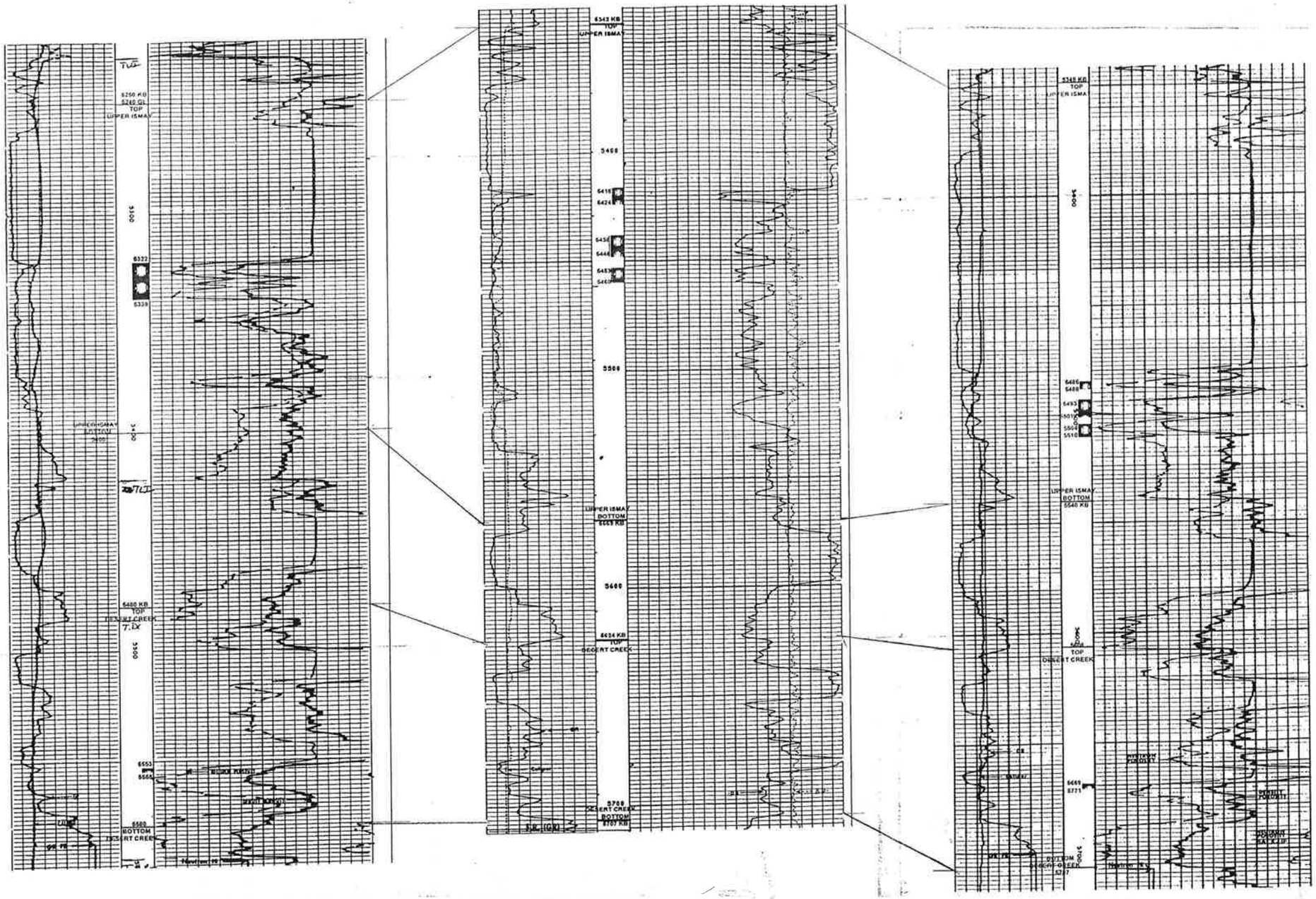
EXHIBIT 13

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 13



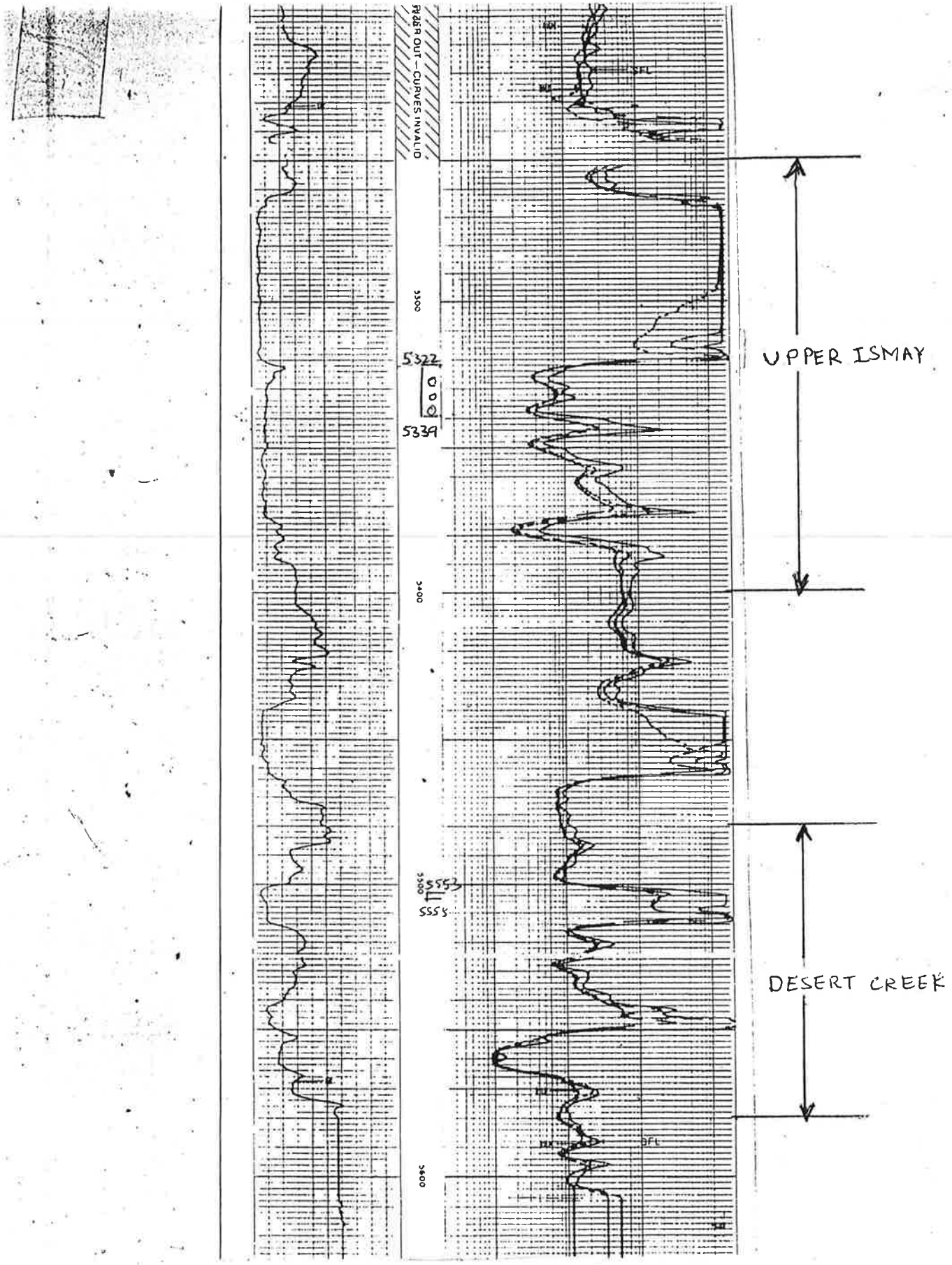
Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 14

NORTH SOUTH CROSS SECTION- SQUAW CANYON-SEC. 19
EXHIBIT 14
Fed. 10-19----Fed. 1-19----Fed. 3-19



EAST WEST CROSS SECTION- SQUAW CANYON-SEC. 19
EXHIBIT 15
Fed. 1-19----Fed. 3-19----Fed. 19-2

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 15



FEDERAL 1-19

Dual Induction SFL

EXHIBIT "3"

Attached to and made a part of that certain Letter Agreement W-36-79 (U) dated April 10, 1979, by and between Mobil Oil Corporation and McCulloch Oil and Gas Corporation.

OPERATING AGREEMENT

DATED

_____, 19___,

FOR UNIT AREA IN TOWNSHIP 38 SOUTH, RANGE 26 EAST,

SAN JUAN COUNTY, STATE OF UTAH

_____ UNIT

EXHIBIT 16

Mar/Reg Oil Company
Docket No. 2010-024
Cause No. 188-04
Exhibit 16

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into this_____ day of_____, 19____, between McCulloch Oil and Gas Corporation

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them.

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.

(4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.

(5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

(6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

NO WELL SHALL BE DRILLED IN THE UNIT AREA UNTIL AFTER (1) THE TITLE TO THE DRILLSITE LEASE HAS BEEN EXAMINED BY AN ATTORNEY ACCEPTABLE TO OPERATOR AND (2) THE TITLE HAS BEEN APPROVED BY OPERATOR OR THE TITLE HAS BEEN ACCEPTED BY ALL OF THE PARTIES WHO ARE TO PARTICIPATE IN THE DRILLING OF THE WELL.

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

~~3. UNLEASED OIL AND GAS INTERESTS~~

~~If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for~~ the purpose of this agreement as if it were a leased interest under the form of oil ~~and gas~~ lease attached as Exhibit "B" and for the primary term therein stated. As to ~~such interests~~, the owner shall receive royalty on production as prescribed in the form of oil ~~and gas~~ lease attached hereto as Exhibit "B". Such party shall, however, be ~~subject to all~~ of the provisions of this agreement relating to lessees, to the extent that it owns ~~the leased interest.~~

7

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (⅛) royalty, the party contributing that lease shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

McCulloch Oil and Gas Corporation shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

~~## 7. TEST WELLS~~

~~On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:~~

~~and shall thereafter continue the drilling of the well with due diligence to~~

~~unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.~~

~~Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.~~

~~If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.~~

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "B". If any provision of Exhibit "B" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of "Ten Thousand" Dollars ($10,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $5,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area ~~other than the test well provided for in Section 7~~, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday Legal Holidays) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(B) 300% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged, and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit 'B', attached hereto.

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

IN THE EVENT ANY PARTY SHALL FAIL TO MAKE THE ARRANGEMENTS NECESSARY TO TAKE IN KIND OR SEPARATELY DISPOSE OF ITS PROPORTIONATE SHARE OF THE OIL AND GAS PRODUCED FROM THE UNIT AREA, OPERATOR SHALL HAVE THE RIGHT, SUBJECT TO REVOCATION AT WILL BY THE PARTY OWNING IT, BUT NOT THE OBLIGATION, TO PURCHASE SUCH OIL AND GAS OR SELL IT TO OTHERS FOR THE TIME BEING, AT NOT LESS THAN THE MARKET PRICE PREVAILING IN THE AREA, WHICH SHALL IN NO EVENT BE LESS THAN THE PRICE WHICH OPERATOR RECEIVES FOR ITS PORTION OF THE OIL AND GAS PRODUCED FROM THE UNIT AREA. ANY SUCH PURCHASE OR SALE BY OPERATOR SHALL BE SUBJECT ALWAYS TO THE RIGHT OF THE OWNER OF THE PRODUCTION TO EXERCISE AT ANY TIME ITS RIGHT TO TAKE IN KIND, OR SEPARATELY DISPOSE OF, ITS SHARE OF ALL OIL AND GAS NOT PREVIOUSLY DELIVERED TO A PURCHASER; PROVIDED, HOWEVER, THAT SUCH PURCHASE OR SALE BY OPERATOR OF ANY OTHER PARTY'S SHARE OF OIL AND GAS SHALL BE ONLY FOR SUCH REASONABLE PERIODS OF TIME AS ARE CONSISTENT WITH THE MINIMUM NEEDS OF THE INDUSTRY UNDER THE PARTICULAR CIRCUMSTANCES, BUT IN NO EVENT FOR A PERIOD IN EXCESS OF ONE YEAR. NOTWITHSTANDING THE FOREGOING, OPERATOR SHALL NOT MAKE A SALE INTO INTERSTATE COMMERCE OF ANY OTHER PARTY'S SHARE OF GAS PRODUCTION WITHOUT FIRST GIVING SUCH OTHER PARTY SIXTY (60) DAYS NOTICE OF SUCH INTENDED SALE.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "B", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

17. DELAY RENTALS, MINIMUM ROYALTIES AND SHUT-IN WELL PAYMENTS

Mobil shall pay all delay rentals which may become due and payable under the terms of any oil and gas lease covering lands subject to this agreement. Each other party hereto shall pay Mobil within thirty (30) days of being billed therefor, for its respective share of such delay rentals in accordance with its interest set forth in Exhibit "A." Operator agrees to timely pay any and all shut-in well payments and minimum royalties which may be required under the terms of any oil and gas lease covering lands subject to this agreement and charge the joint account of the parties with said payments which shall be treated in all respects the same as costs incurred in the development and operation of the Unit Area.

Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental, minimum royalty, or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental, minimum royalty, or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 22 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor. Operator agrees to immediately furnish to the other parties a photostatic copy of any and all instruments of whatever character served on Operator which evidence a change in the ownership of delay rentals or royalties payable under any oil and gas lease which is subject to this agreement.

18. SALE OF INTEREST BY OPERATOR

Should a sale be made by Operator of any of its rights and interests, Operator shall notify all other parties in writing prior to the effective date, and the party owning the largest interest hereunder shall become Operator. In the event no single party is the largest interest owner or such party declines to serve as Operator, the parties shall select a new Operator under the provisions of Section 20 hereof. In the event of a change in Operator, the retiring Operator shall continue to serve as Operator until a successor Operator is selected, but the retiring Operator shall not be obligated to continue the performance of its duties for more than ninety (90) days after the effective date of the sale of its rights and interests.

19. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

(1) the entire interest of the party in all leases and equipment and production; or

(2) an equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of any party is divided among and owned by four or more co-owners, Operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

20. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

21. RELATIONSHIP OF THE PARTIES - TAX ELECTIONS

Except as otherwise herein provided, the liabilities of the parties hereto shall be several and not joint or collective and each party shall be responsible only for its proportionate share of the costs and liabilities incurred as provided hereunder. It is not the purpose or intention of this agreement to create any partnership, mining partnership or association and neither this agreement nor the operations hereunder shall be construed or considered as creating any such realtionship; provided, however, each party agrees not to elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury or his delegate shall permit by election, to be excluded therefrom. The procedures for implementing partnership taxation shall be in accordance with the provisions of Exhibit "D" attached hereto and made a part hereof.

22. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this section shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

23. SURRENDER OF LEASES

The leases covered by this agreement, in so far as they embrace acreage in the Unit Area, shall not be surrendered in whole or in part unless all parties consent.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "B", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

24. ACREAGE OR CASH CONTRIBUTIONS

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the parties drilling the well in the proportions said parties shared the cost of drilling the well. If all parties hereto participate in the drilling and accept such tender, such acreage shall become a part of the Unit Area and be governed by the provisions of this agreement. If less than all parties hereto participate in the drilling and accept such tender, such acreage shall not become a part of the Unit Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

25. PROVISION CONCERNING TAXATION

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "B".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "B".

26. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "C" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "C", or subsequently receiver the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for operator's fully owned automotive equipment.

27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand ($1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

28. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure" as here employed shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental restraint, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by delivery in person, or by mail, telex, telegraph, or telecopier. Notice shall be deemed given only when received by the party to whom such notice is directed.

36. OTHER CONDITIONS, IF ANY, ARE:

(a) Notwithstanding anything herein to the contrary, if any party hereto shall, subsequent to the execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all the terms and provisions of this agreement. If the party hereto from which such subsequently created interest is created (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to abandon a well under Section 16 hereof, elects to surrender a lease under Section 23 hereof, elects to go non-consent under Section 12 hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro-rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 9 hereof for the purpose of collecting costs and expenses chargeable to the subsequently created interest.

(b) Election at Casingpoint - Notwithstanding any provision to the contrary appearing herein, consent to the drilling of a test well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice by telephone or wire to non-operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply by telephone or wire within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt.

If all parties elect to plug and abandon the test well, Operator shall plug and abandon the well at the expense of all parties.

If one or more, but less than all of the parties, elect to set pipe and attempt a completion, the provisions of Section 12 shall apply to the operation. It is understood, however, that the parties attempting completion shall be entitled to recover 300% of the costs incurred in the completion attempt. It is further understood that the non-consenting parties shall pay their proportionate share of all costs incurred in drilling the test well to the time of their notice of an election not to participate.

(c) During performance of this contract, the Operator agrees as follows:

(1) The Operator will not discriminate against any employee or applicant for employment because of race, religion, sex, color, or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, religion, sex, color or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising, layoff or termination rates of pay or other forms of compensation and selection for training including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in the form specified in the regulations published in Title 41, Chapter 60 of the Code of Federal Regulations, as amended, setting forth the provisions of this nondiscrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, religion, sex, color or national origin.,

(3) The Operator will send to each labor union or representative or workers with which he has a collective bargaining agreement or other contract or understanding, a notice in the form prescribed by the regulations published in Title 41, Chapter 60 of the Code of Federal Regulations advising the Labor Union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965 and shall post copies of notices in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965 and of the rules, and regulations and relevant orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965 and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency (as defined in the regulations published under Title 41, Chapter 60 of the Code of Federal Regulations) and by the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

(6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended, in whole or in part, and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965 and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965 or by rule, regulations or order of the Secretary of Labor or as otherwise provided by law.

(7) The Operator will include the provisions of Paragraphs (1) through (7) in every contract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965 so that such provision will be binding upon each contractor or vendor. The Operator will take action with respect to any contractor or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanction for noncompliance; provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a contractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

McCULLOCH OIL AND GAS CORPORATION

ATTEST:

By: W. James Saul

W. JAMES SAUL, VICE PRESIDENT

OPERATOR

MOBIL OIL CORPORATION

ATTEST:

By: _____

ATTEST:

_____

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated _____, by and between MOBIL OIL CORPORATION and McCULLOCH OIL AND GAS CORPORATION.

Lands Subject to Agreement (Unit Area):

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated , by and between MOBIL OIL CORPORATION and McCULLOCH OIL AND GAS CORPORATION.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations and related expenses

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%) or the percentage most recently recommended by the Council of Petroleum Accountants Societies of North America.

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section 1, Paragraph 3.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or

( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 2,230

Producing Well Rate $ 228

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ * :

A. * % of total costs if such costs are more than $ * but less than $ * ; plus

B. * % of total costs in excess of $ * but less than $1,000,000; plus

C. * % of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

* To be negotiated

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "C"

Attached to and made a part of Operating Agreement, dated
by and between MOBIL OIL CORPORATION and McCULLOCH OIL AND GAS CORPORATION.

INSURANCE

Pursuant to Section 26 hereof, Operator shall carry or provide the following insurance for the benefit and protection of the joint account:

1. Comply with the laws of the State of UTAH as to Workmen's Compensation and Employer's Liability. In the event Unit Operator qualifies as a self-insurer in accordance with said laws, no insurance covering such risks shall be carried as Unit Expense.

2. Comprehensive General Public Liability Insurance excluding saline contamination hazard with limits, (1) as to Bodily Injury of not less than one hundred thousand dollars ($100,000.00) for each person and not less than three hundred thousand dollars ($300,000.00) for each accident, and (2) as to Property Damage of not less than one hundred thousand dollars ($100,000.00) for each accident.

3. Automobile Public Liability Insurance to cover Unit owned automotive equipment with limits of $100,000 for injuries to one person, $300,000 for injuries to more than one person in any one accident, and $25,000 for property damage.

4. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

5. No other insurance shall be carried or provided for as Unit Expense hereunder.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated _____, by and between MOBIL OIL CORPORATION and McCULLOCH OIL AND GAS CORPORATION.

PARTNERSHIP TAXATION PROVISIONS

A. Each party agrees not to elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury or his delegate shall permit by election, to be excluded therefrom, or similar provisions of any State Tax Law. The parties further agree that for Federal and State Income Tax purposes the assignment of operating rights and working interest in the leases by Mobil Oil Corporation shall be a contribution to the tax partnership.

B. The parties agree that for Federal and State Income Tax purposes, the gains and losses from sales, abandonments, and other dispositions of property and all classes of costs, expenses and credits, including depreciation and depletion shall be shared and accounted for by each party in any applicable Federal and State tax return as hereinafter provided for:

1. The production costs shall be allocated as deductions to each party in accordance with its respective contributions to such costs.

2. The exploration costs and intangible drilling and development costs shall be allocated as deductions to each party in accordance with its respective contributions to such costs. Any subsequent recapture of these deductions by the partnership under Section 1254 of the Internal Revenue Code of 1954, as amended, shall also be allocated in such manner.

3. The depreciation on tangible equipment shall be allocated to each party in accordance with its respective contributions to the adjusted basis of such equipment.

4. As provided in IRS Code Sections 613A(c) (7)(D) and 703(a) (2)(F) depletion is to be computed separately by the parties. The parties agree that the adjusted basis of each oil and gas property for the purpose of computing depletion shall be allocated and reallocated when necessary based upon the capital interest in this partnership as to each property and the capital interest in the partnership for such purpose as to each such property shall be considered to be owned by the parties hereto in the ratio in which the expenditure giving rise to the tax basis of such property has been charged as of the end of the taxable year to each respective party's capital account.

5. Gains and losses from each sale, abandonment or other disposition of property (other than oil and gas properties or production therefrom) will be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the parties outside this agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property, selling expenses, and each party's respective contributions to the unadjusted cost basis of such property, less allowed or allowable depreciation, amortization, or other deductions which have been allocated to each party with respect to such property as provided in this agreement.

6. For purposes of computing gain or loss on disposition of each oil and gas property, the parties agree that the adjusted basis of each oil and gas property for computation of gain or loss on disposition shall be allocated and reallocated when necessary based upon the capital interest in this partnership as to each property and the capital interest in this partnership for such purpose as to each such property shall be considered to be owned by the parties hereto in the ratio in which the expenditure giving rise to the tax basis of such property has been charged as of the end of the taxable year to each respective party's capital account.

7. The investment credit allowed by Section 38 of the Internal Revenue Code of 1954 shall be allocated to the parties in accordance with their respective contributions to qualified investment in Section 38 property as defined in Section 48 of the Internal Revenue Code of 1954 as restored by Section 50 of the Internal Revenue Code of 1954, as amended. If required by law, the tax partnership shall elect to take investment credit on qualified progress expenditures.

8. All other classes of costs, expenses, and credits not falling within Paragraphs 1, 2, 3, 4, 5, 6, and 7 hereof shall be allocated to and accounted for by each party in accordance with their respective contributions to such costs, expenses and credits.

9. All other items of tax partnership income, gains and losses, shall be allocated to and accounted for by each party on the basis of and in accordance with such party's respective contribution to or interest in such income, gains and losses.

The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code, as amended.

C. The party named as Operator under this agreement shall prepare and file the tax partnership returns hereunder. Non-Operator agrees to furnish Operator such information relating to the operations conducted under this agreement as shall be required by law for tax reporting purposes. Operator agrees to use its best efforts in the preparation and filing of the tax partnership returns and in making any appropriate elections on such returns, acting on behalf of itself and Non-Operator, but in so doing Operator shall incur no liability to Non-Operator with regard to such returns or elections. Operator shall submit copies of such returns to Non-Operator in sufficient time prior to the due date, plus any extensions thereof, to permit review and approval. Operator is hereby granted authority to make the following elections under United States and any applicable State tax laws and regulations in the first and subsequent years' tax returns to be filed under this agreement: to deduct as expenses all intangible drilling and development costs with respect to both productive and non-productive wells; to elect the accrual method of accounting which shall be maintained on a calendar year basis; and to make such other elections as may be approved by the parties. The parties shall mutually agree on the method and lives to be used for calculating depreciation of tangible equipment to be allocated under Paragraph B. 3.

BEFORE THE BOARD OF OIL, GAS AND MINING

DEPARTMENT OF NATURAL RESOURCES

STATE OF UTAH

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF MAR/REG OIL COMPANY FOR AN ORDER ESTABLISHING 160-ACRE DRILLING AND SPACING UNITS FOR HORIZONTAL WELLS IN AND THE PRODUCTION OF OIL, GAS, AND OTHER HYDROCARBONS FROM THE DESERT CREEK AND UPPER ISMAY FORMATIONS IN THE NE¼ OF SECTION 19, TOWNSHIP 38 SOUTH, RANGE 26 EAST, S.L.M., SAN JUAN COUNTY, UTAH	**REQUEST FOR AGENCY ACTION** **Docket No. 2010-024** **Cause No. 188-04**

MAR/REG OIL COMPANY, by and through its undersigned attorneys, and pursuant to Utah Code Ann. § 40-6-6, hereby requests the Board of Oil, Gas and Mining to enter an order establishing 160-acre spacing and drilling units for horizontal wells in and the production of oil, gas, and other hydrocarbons from the Desert Creek and Upper Ismay Formations underlying the following described lands in the Squaw Canyon Field located in San Juan County, Utah (hereinafter the "**Subject Lands**"):

Township 38 South, Range 26 East, S.L.M.

Section 19: NE¼

(containing 160.00 acres, more or less)

In support of this Request for Agency Action ("**Request**"), Mar/Reg Oil Company states and represents as follows:

1. Mar/Reg Oil Company ("**Mar/Reg**") is a Nevada corporation in good standing, having its principal place of business in Reno, Nevada. Mar/Reg is qualified to and is doing business in Utah.

2. The Board of Oil, Gas and Mining (the "**Board**") has jurisdiction of the parties and subject matter of this Request, pursuant to Sections 40-6-5 and 40-6-6 of the Utah Code Annotated.

3. Mar/Reg operates the Squaw Canyon Federal #1-19 Well and the Squaw Canyon #3-19 Federal Well, both of which are located on the Subject Lands.

4. The minerals in the lands embraced within the following described lands are owned by the United States of America.

Township 38 South, Range 26 East, S.L.M.

Section 19: All

(containing 640.00 acres, more or less)

The oil and gas minerals in the NE¼ (comprising the Subject Lands) and SW¼ of said Section 19 are subject to United States Oil and Gas Lease No. U-40401 (the "**Subject Lease**"). The oil and gas minerals in the NW¼ and SE¼ of said Section 19 are unleased. The surface of Section 19 is owned by the United States of America. The United States Department of the Interior, Bureau of Land Management administers the federally-owned minerals and lands.

5. Mar/Reg's partner, Nathan Oil LLC, owns 75% of the operating rights in the Subject Lease beneath the Subject Lands in the stratigraphic interval from the surface of the Earth to 5,612 feet. Questar Exploration & Production Company ("**QEP**") owns the remaining operating rights in that interval. The referenced stratigraphic interval includes the "Spaced Intervals" as defined in Paragraph 7 herein. QEP and ExxonMobil Corporation ("**Exxon**") each own a 50%

interest in the operating rights below 5,612 feet beneath the Subject Lands. QEP (25%), Exxon (50%), and Devon Energy Corporation (25%) own the operating rights in the SW¼ of Section 19 from the surface to 5,612 feet. QEP and Exxon each own a 50% interest in the operating rights below 5,612 feet in the SW¼.

6. The lands and minerals within Section 19 were subject to spacing orders entered by the Board in Causes Nos. 188-1, 188-1(C), 188-3, and 188-3(A) (the "**Previous Orders**"). All of the Previous Orders have been vacated. Accordingly, the lands within Section 19, including the Subject Lands, are not currently subject to any spacing order of the Board for the production of oil, gas, or other hydrocarbons. The lands are currently governed by the Board's general well-location and siting rules set forth in Utah Administrative Code ("**U.A.C.**") Rule R649-3-2(1), which authorizes one well to be drilled for the production of oil or gas in the center of every public land survey quarter-quarter section or equivalent lot. With respect to horizontal wells, the lands within Section 19 are subject to a temporary 640-acre spacing unit consisting of all of Section 19 for horizontal wells established by U.A.C. Rule R649-3-2(6).

7. The formations to be unitized for drilling and spacing purposes are (1) the Desert Creek Formation described as follows (the "**Desert Creek Interval**"):

> The Desert Creek Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal #1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,480 feet and the base of the spaced formation being found at a measured depth of 5,580 feet or to the stratigraphic equivalent thereof

and (2) the Upper Ismay Formation described as follows (the "**Upper Ismay Interval**"):

> The Upper Ismay Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal # 1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,250 feet and

the base of the spaced formation being found at a measured depth of 5,400 feet or to the stratigraphic equivalent thereof

(The Desert Creek Interval and the Upper Ismay Interval are collectively referred to herein as the "**Spaced Intervals.**")

8. Mar/Reg believes and therefore states that the Spaced Intervals underlie all or substantially all of the Subject Lands and generally constitute separate pools and common sources of supply for oil, gas, and other hydrocarbons contained within the Subject Lands.

9. The following wells have been drilled within Section 19:

a. Squaw Canyon Federal #1-19 Well (API #43-037-30485) located in the SE¼NE¼ of Section 19. This well is operated by Mar/Reg and was completed as a vertical well in October 1979. The well was recompleted in September 1987. The well has produced from the Desert Creek and Ismay Formations, but is currently shut-in.

b. Squaw Canyon #3-19 Federal Well (API #43-037-30622) located in the NW¼NE¼ of Section 19. This well is operated by Mar/Reg and was completed as a vertical well in October 1981. The well currently produces oil from the Desert Creek and Ismay Formations.

c. Federal #19-2 Well (API #43-037-30494) located in the NW¼NW¼ of Section 19. This well has been plugged and abandoned.

d. Squaw Canyon Federal #10-19 Well (API #43-037-30785) located in the NW¼SE¼ of Section 19. This well has been plugged and abandoned.

e. Three Amigos Federal #1 Well (API #43-037-31456) located in the NE¼NW¼ of Section 19. This well has been plugged and abandoned.

10. Mar/Reg intends to drill a new horizontal well as an offset to the Squaw Canyon Federal #1-19 Well. Mar/Reg believes and therefore states that each of the Spaced Intervals contains a separate pool. Thus, a lateral will be drilled into the Desert Creek Interval and a separate lateral will be drilled into the Upper Ismay Interval. The production from each interval will be commingled in the wellbore. Mar/Reg believes and therefore states that correlative rights will not be adversely affected by the commingling because the ownership interests in each interval are the same. Mar/Reg also intends to continue producing the Squaw Canyon #3-19 Federal Well as a vertical well and return the Squaw Canyon Federal #1-19 Well to production as a vertical well.

11. Mar/Reg believes and therefore states that in order to protect correlative rights and to prevent waste 160-acre drilling and spacing units for horizontal wells for the Spaced Intervals beneath the Subject Lands should be established, and further that 160 acres is not smaller than the maximum area that can be efficiently and economically drained by one horizontal well completed and producing from each Spaced Interval located beneath the Subject Lands. Mar/Reg requests that the horizontal interval (i.e., all horizontal laterals) in the permitted well for each such unit be located no closer than 1,320 feet from other wells completed and producing from the Spaced Interval in the Subject Lands, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells, and no closer than 660 feet from the outer boundary of the 160-acre drilling and spacing units.

12. Mar/Reg believes and therefore states that to allow other parties the opportunity to drill horizontal wells within the Spaced Intervals within the remaining NW¼, SW¼, and SE¼ of Section 19, temporary 160-acre spacing units for the Desert Creek Interval and Upper Ismay Interval comprised of each of those quarter-sections should be established, and that the horizontal interval (i.e., all horizontal laterals) in the permitted well for each such unit be located no

closer than 1,320 feet from other wells completed and producing from the Spaced Intervals, and no closer than 660 feet from the outer boundary of the temporary 160-acre drilling and spacing units, and further that the surface location for the unit well in each temporary unit may be located anywhere within the quarter-section. Additionally, the existing 640-acre temporary spacing unit affecting all other stratigraphic intervals beneath Section 19 established by U.A.C. Rule R649-3-2(6) should remain in place.

13. Mar/Reg believes and therefore states that establishing the proposed drilling and spacing units is just and reasonable and will allow for the orderly development of the Spaced Intervals within the Subject Lands as well as the other affected stratigraphic intervals and lands. Establishing such units will prevent waste, adequately protect the correlative rights of all affected parties, promote the public interest, and increase the ultimate recovery of hydrocarbons from the Subject Lands. Mar/Reg is prepared to present evidence and testimony in support of these allegations.

14. Mar/Reg has included in the mailing certificate attached to the Request a list of names and last known addresses of all persons known to Mar/Reg whose legally protected interests in the Subject Lands and the remainder of Section 19 will be affected by the Request, including known mineral owners, overriding royalty or other production interest owners, and producers and operators.

WHEREFORE, Mar/Reg respectfully requests the Board to:

A. Set this matter for hearing at the regularly scheduled meeting of the Board to be held on September 22, 2010, to consider approving an order establishing the proposed drilling and spacing units for horizontal wells within the Desert Creek and Upper Ismay Formations

underlying the Subject Lands and the temporary spacing units in the remaining lands in Section 19 as requested herein.

B. Give notice of this Request for Agency Action and the hearing as provided by the laws of the State of Utah and regulations issued pursuant thereto. The names and last known addresses of all persons known by Mar/Reg whose legally protected interests in the Subject Lands and the remaining lands in Section 19 will be affected by this Request are set forth in the mailing certificate attached to this Request.

C. Conduct a hearing at which Mar/Reg and all interested parties may be allowed to present evidence regarding: (1) establishing the proposed 160-acre drilling and spacing units for horizontal wells within the Spaced Intervals within the Desert Creek and Upper Ismay Formations underlying the Subject Lands and the temporary spacing units in the remaining lands in Section 19; (2) providing that each such drilling and spacing unit shall be comprised of a governmental quarter section; and (3) providing that the horizontal interval in the unit well for each such drilling and spacing unit shall be located no closer than 1,320 feet from other wells completed in and producing from the Spaced Intervals within the Subject Lands and the temporary spacing units in the remaining lands in Section 19, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells located in the NE¼ of Section 19 with regard to the new horizontal well to be drilled in the NE¼, and that such unit well be located no closer than 660 feet from the outer boundary of the spacing unit.

D. Make such findings as it deems necessary in connection with this Request.

E. Enter an order replacing the temporary 640-acre spacing unit consisting of Section 19 established by U.A.C. Rule R649-3-2(6) with the proposed 160-acre drilling and spacing units for horizontal wells within the Spaced Intervals within the Desert Creek and Upper Ismay

Formations underlying the Subject Lands and establishing temporary spacing units in the remaining lands in Section 19 as described above; providing that such drilling and spacing units shall be comprised of a governmental quarter section; providing that the horizontal interval (i.e., all horizontal laterals) in the unit well for each such drilling and spacing unit shall be located no closer than 1,320 feet from other wells completed in and producing from the Spaced Interval within the Subject Lands and the remaining lands in Section 19, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells with regard to the new horizontal well to be drilled in the NE¼ of Section 19, and that such unit well be located no closer than 660 feet from the outer boundary of the 160-acre drilling and spacing unit.

F. Provide such other relief as may be just and proper under the circumstances.

Dated this 9th day of August, 2010.

VAN COTT, BAGLEY, CORNWALL & McCARTHY

By _____
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Attention: Tariq I. Ahmad PE

CERTIFICATE OF MAILING

I hereby certify that on this 9th day of August, 2010, I caused a true and correct copy of the foregoing Request for Agency Action to be served via U.S. Mail, properly addressed with postage prepaid, upon each of the following:

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